CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1986 - 1987

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

Lester Everett - Chairperson

Chief - Berens River Indian Band

Bruno Seppala

Chief - Timber Management and Development

Department of Natural Resources

Edmond Berens

Councillor - Berens River Indian Band

Bill Hudson

Councillor - Berens River Indian Band

Henry A. McKay

Fisherman - Berens River

Henry G. McKay

Airport Manager - Berens River

Jack Clarkson

Entrepreneur - Berens River

OFFICERS

Lester Everett

President

Gordon P. Trithart

Secretary/Treasurer

George Kemp

Manager

HEAD OFFICE: Berens River, Manitoba

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APPENDIX - Audited Financial Statements
For Year Ended March 31, 1987

CHANNEL AREA LOGGERS LTD. - ANNUAL REPORT

APRIL 1, 1986 - MARCH 31, 1987

I. INTRODUCTION:

Channel Area Loggers Ltd. is a Crown Corporation established in 1973 under the Manitoba Natural Resources Development Act to provide, as a principal objective, an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

The Company conducts pulpwood harvesting operations on the east side of Lake Winnipeg where a valuable forestry resource exists and where there is a serious lack of employment opportunities.

Mechanical harvesters, mainly skidders, are used to harvest spruce pulpwood in eight foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at a barge landing on the east side of Lake Winnipeg some 30 miles from the cutting area. The product is used to produce newsprint at the Abitibi-Price Pine Falls mill.

The accumulated loss since the Company's inception in 1973 is $1,989,690. Profit/Loss for the last eight fiscal years ending March 31st are as follows:

	Profit	Loss
1980		$278,011
1981		173,487
1982		17,262
1983	$ 38,976	
1984		148,949
1985		235,635
1986		17,901
1987		8,531

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Profit/Losses in the foregoing table are prior to receipt of general subsidies from the Province, but include receipt of specific subsidies provided to offset developmental costs. Total assistance from the Province for the year ended March 31, 1987 was $12,931 compared to $17,901, $242,917 and $213,434 for the three prior years. (Refer to Page 4).

II. SYNOPSIS OF THE YEAR'S EVENTS:

Planning and budgeting initiatives over the past two years have provided significant financial results and thus dramatically affected the loss situation as compared with the two prior years. The planning and budgeting initiatives which have included an ongoing review of cost control measures, budgeting practices, and monitoring to ensure compliance has enabled the Company to function in a more businesslike manner. Therefore continuation of this process through the 1986-87 fiscal year produced good results in financial, accounting, and managerial terms.

Specific on-the-job training for the bookkeeper was provided which resulted in an improved audit report. Funding of this training was provided by the Department of Northern Affairs.

A mechanical feller/buncher (snipper) rented for winter operations produced 4,554 cords (7,213 for 1985-6) combined with an early summer cut of 3,500 cords enabled the Company to sell a total of 18,100 cords for the year under review. There is an ongoing need for a feller/buncher if the Company is to be financially viable and harvest the resource in an appropriate manner.

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Tree planting contracts with the Department of Natural Resources provided additional employment for some eight weeks for 34 employees and residents.

Winter road access from the Community to the Camp is no longer required as the 17 mile dry weather road begun in 1985 was completed during the summer of 1986. This undertaking was totally funded by the Canada/Manitoba Northern Development Agreement in the amount of $273,164 and budgeted at $275,800.

Non-resident contracting was limited to a crawler dozer for road construction, four of the five truckers used to haul pulpwood to the landing on Lake Winnipeg, and a few skidder owner/operators who have been with the Company for many years.

There were no changes to the Board of Directors for the year under review.

III. REVIEW OF RESULTS:

A. Financial Results

Appended are audited financial statements for the fiscal year 1986-87, as prepared by the Provincial Auditor. These statements report an operational loss of $8,531 for 1986-87 compared to a loss of $17,901 for the previous year. These figures are following receipt of specific developmental subsidies provided by the Province and funding provided by the Canada/Manitoba Northern Development Agreement for the access road.

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The improved financial results for the past two years can be attributed to the comprehensive planning and budget review process undertaken in 1985-86 and maintained during 1986-87. The improved financial results have reduced the Company's dependence on subsidies from the Province. The following table outlines subsidies provided by the Province over the past four years and demonstrates the substantial progress achieved over the last two years.

	1983-84	1984-85	1985-86	1986-87
1. General Subsidy to Offset Annual Loss	$109,973	$235,635	$ 17,901	$ 8,531
2. Specific Subsidies				
a) Operating				
Training				4,400
Campsite Relocation	55,700			
Winter Road Construction	15,826			
Consulting Fees	6,486			
Strip Cutting Program	4,412	7,282		
Sub-Total	$ 82,424	$ 7,282		$ 4,400
b) Capital				
Timber Inventory Survey	$ 21,037			
3. Total Assistance	$213,434	$242,917	$ 17,901	$ 12,931

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The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1984-85	1985-86	1986-87
Cutters & Contract Wood	$33.32	$31.81	$35.48
Transportation - Wood Haul	13.32	13.19	13.94
Company Equipment & Maintenance	3.45	1.88	2.00
Roads	7.91	4.64	6.49
Kitchen and Dorms	2.12	.92	1.56
General & Administration	18.69	16.63	11.53
Supervision & Bush	2.59	.52	.31

The increase of $3.67 per cord in Cutter and Contract wood can be attributed to a 14% increase in wages and the fact that the percentage of snipper wood cut in the previous year was 45% of total volume whereas for the year under review the percentage decreased to 25%. It is the policy of the Company to utilize the snipper to cut small diameter wood and maintain production levels. This method allows cutters and skidder owner/operators to maximize their earnings.

Road costs increased substantially due to inclement weather conditions causing a $25,000 overrun in winter haul road maintenance. The $5.10 per cord decrease in administrative costs reflects an overall decrease of $55,583 and an increase of 2,197 cords production. Major changes include decreases of $17,224, $38,488 and $27,297 in wages, interest and bad debts respectively, offset by $15,507 increase in insurance costs.

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B. Production

An outline of production for the past four years and delivered pulpwood for the past six years are included in the following tables:

Annual Pulpwood Production in Cords

For the Years Ending March 31st

Strip Production	1984	1985	1986	1987
- Cut, Pile & Forward	100	448	-	-
- Snipper			7,213	4,554
- Cut & Skid	7,300	12,815	8,690	13,546
Total	7,400	13,263	15,903	18,100 (1)

(1) There was no pulpwood inventory to carry-over to 1988-89 (1985-86 carry-over was 873 cords.)

Annual Delivered and Sold Pulpwood Volume in Cords

As at March 31st

1987	18,100
1986	15,341
1985	15,483
1984	4,900
1983	19,000
1982	22,000
1981	19,151

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While production was planned at 18,500 cords for 1986-87, the Company was able to produce only 18,100 cords due to an early spring. It is important that the Company maintain carry-over pulpwood at a minimum as it escalates the cost. The favourable production results substantiate the need of feller/buncher (snipper) if the Company is to meet its production targets and thus ensure that existing employment levels are maintained.

C. Related Activities

The Company employed a total of 36 people in 1986-87 with wages and benefits totalling $280,788 compared to $246,030 in 1985-86. Payments to and on behalf of contractors, including wages, amounted to $812,414 in 1986-87 compared to $637,080 in 1985-86. Increases are due primarily to increased production. Some 55% of total wages were paid to residents of Berens river and another 30% to individuals of Indian ancestry from other areas of the Province. Approximately 85% of the payments to contractors were to residents of the channel area.

Reforestation played an important employment role during the year as the Company contracted with the Department of Natural Resources and successfully planted 400,000 seedling trees. Planting is generally undertaken in the early summer and fall during unproductive logging periods, thus providing additional employment to loggers as well as residents of the Community.

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The Company is the second largest employer in the Berens River area. Only commercial fishing employs more local individuals.

The Company maintains a commissary and grocery store facility for employees. This facility provides a variety of food products, confectionary items, and winter clothing, in addition to an order office for skidder and power saw parts.

D. Training

The Company continues to provide on-the-job training to its employees as required. The Department of Northern Affairs funded special on-the-job training for the bookkeeper at a cost of $4,400. The totally local resident staff require a transition period in order to upgrade their skills and gain experience. In the interim, support is required from the Department of Northern Affairs and the Company's chartered accountant.

E. Other

A Secretary to the Board of Directors is provided by the Provincial Government. This position provides administrative and management support to the local operation and ensures adequate liaison between the Company and Government and between the Board of Directors and management.

Manitoba

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1987 and the statement of revenues and expenditures, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Fred W. Jackson

F. H. Jackson, CA,
Provincial Auditor.

September 25, 1987,
Winnipeg, Manitoba.

Exhibit A

CHANNEL AREA LOGGERS LTD.

(Incorporated Under The Corporations Act, Manitoba)

Balance Sheet
as at March 31, 1987
(with 1986 figures for comparison)

ASSETS

	1987	1986
CURRENT ASSETS:		
Accounts receivable (Note 2)	$ 162,933	$ 200,745
Subsidy receivable from the Government of the Province of Manitoba	26,430	253,541
Inventories (Note 3)	77,333	115,716
Prepaid expenses	613	-
Total current assets	267,309	570,002
FIXED ASSETS (Note 4)	463,697	462,188
Less accumulated depreciation	262,297	232,067
Net fixed assets	201,400	230,121
GUARANTEE DEPOSIT WITH THE GOVERNMENT OF THE PROVINCE OF MANITOBA	900	900
TOTAL	$ 469,609	$ 801,023

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Excess of outstanding cheques over bank balances	$ 9,188	$ 155,613
Bank demand loan (Note 5)	80,000	176,000
Accounts payable (Note 6)	80,331	133,185
Advances from the Government of Canada (Note 7)	-	36,135
Total current liabilities	169,519	500,933
SHAREHOLDERS' EQUITY:		
Capital stock (Note 8):		
Authorized: 35,000 common shares, maximum consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
TOTAL	$ 469,609	$ 801,023

Approved by the Board:

Director _____

Director _____

Exhibit B

CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
REVENUES:		
Pulpwood sales	$ 1,258,316	$ 1,043,281
Commissary sales	209,905	181,139
Board charges	32,333	26,060
Miscellaneous	48,319	17,314
Reforestation program (Note 10)	100,403	56,000
Log sales	10,066	-
Total revenues	1,659,342	1,323,794
EXPENDITURES:		
Direct logging costs (Schedule 1)	1,200,351	902,594
General and administrative (Schedule 2)	208,783	264,366
Commissary	167,180	147,521
Reforestation program (Note 10)	99,150	37,122
Total expenditures	1,675,464	1,351,603
	(16,122)	(27,809)
OTHER INCOME:		
Gain on disposal of fixed assets	3,191	9,908
Excess (deficiency) of revenues over expenditures before operating assistance from the Government of the Province of Manitoba	(12,931)	(17,901)
Operating Assistance from the Government of the Province of Manitoba - General subsidy	8,531	17,901
- Specific subsidy	4,400	-
	12,931	17,901
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -

Exhibit C

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
CASH PROVIDED BY (USED FOR):		
Operating Activities:		
Items not involving cash:		
Depreciation	$ 45,892	$ 50,339
Gain on disposal of fixed assets	(3,191)	(9,908)
	42,701	40,431
Net change in non-cash working capital balances related to operations	213,703	36,136
	256,404	76,567
Investing activities:		
Additions to fixed assets	23,879	44,557
Net proceeds from disposal of fixed assets	(9,900)	(12,100)
	13,979	32,457
INCREASE IN CASH	242,425	44,110
CASH DEFICIENCY AT BEGINNING OF PERIOD	(331,613)	375,723
CASH DEFICIENCY AT END OF PERIOD	$ 89,188	$ 331,613
Represented by:		
Bank loan	$ 80,000	$ 176,000
Outstanding cheques	9,188	155,613
	$ 89,188	$ 331,613

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
INVENTORY AT BEGINNING OF THE YEAR	$ 29,127	$ 16,793
PRODUCTION EXPENSES:		
Contract wood purchases	442,618	360,968
Cutters wages and fringe benefits	199,487	144,776
Depreciation	13,154	17,050
Transportation:		
Contract hauling to landing	252,320	202,362
Forwarding to roadside	6,610	72
Freight and fuel movement	9,704	10,778
Personnel transport	12,754	11,129
Road construction and maintenance, net	117,476	73,750
Timber dues	46,488	41,454
Supervision	5,528	8,257
Repairs and maintenance	36,195	29,837
Sundry	659	-
Kitchen and dormitory	28,231	14,495
Total production expenses	1,171,224	914,928
INVENTORY AT END OF THE YEAR	-	29,127
DIRECT LOGGING COSTS, EXHIBIT B	$ 1,200,351	$ 902,594

CHANNEL AREA LOGGERS LTD.

Schedule of General and Administrative Expenses
for the year ended March 31, 1987
(with 1986 figures for comparison)

	1987	1986
Salaries, wages and fringe benefits	$ 75,773	$ 92,997
Interest and service charges	11,948	40,436
Travel and accommodation	5,304	3,680
Mobile home	6,968	3,042
Communications	5,814	3,559
Bad debts	4,848	32,145
Legal, audit and accounting	24,614	24,937
Directors' travel and accommodation	490	5,281
Directors' fees	3,745	2,760
Office supplies and utilities	3,535	2,126
Taxes, licences and fees	919	4,873
Insurance	30,468	14,961
Depreciation	32,738	33,289
Miscellaneous	1,619	280
GENERAL AND ADMINISTRATIVE EXPENSES, EXHIBIT B	$ 208,783	$ 264,366

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1987

1. Significant Accounting Policies

The following is a summary of the significant accounting policies of the Company.

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation of fixed assets on the basis shown in note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

2. Accounts Receivable

The major categories of accounts receivable are:

	1987	1986
General	$ 114,359	$ 170,089
Government of the Province of Manitoba	4,400	-
Contract cutters	44,174	30,656
	$ 162,933	$ 200,745

3. Inventories

The major categories of inventory are:

Pulpwood	$ -	$ 29,127
Other:		
Commissary supplies	1,548	933
Parts and supplies	24,206	32,828
Gasoline, diesel fuel and oil	48,414	49,075
Kitchen supplies	3,165	3,753
	77,333	86,589
	$ 77,333	$ 115,716

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1987

4. Fixed Assets

The major categories of fixed assets and related accumulated depreciation at March 31, 1987 are:

	Cost	Accumulated Depreciation	Rates
Buildings and Trailers	$ 319,607		
Less: Funded by the Government of Canada	67,298		
	252,309	134,774	10%
Machinery and Equipment	232,577		
Less: Funded by the Government of the Province of Manitoba	21,189		
	211,388	127,523	10-20%
Road	273,164		
Less: Funded by the Government of Canada	273,164		
	-	-	
	$ 463,697	$ 262,297	

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the straight-line basis at the rates shown above.

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1987

6. Accounts Payable

The major categories of accounts payable are:

	1987	1986
Trade	$ 15,474	$ 62,541
Wage deductions	2,837	20,387
Employees	8,846	-
Government of the Province of Manitoba	53,174	50,257
	$ 80,331	$ 133,185

7. Advances from the Government of Canada

The advance received from the Government of Canada, to assist the Company with the costs of constructing a dry weather road, was fully expended on road construction during 1987.

8. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

9. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $55,000 (1986 - $55,000). The Government of the Province of Manitoba also provides Workers Compensation coverage for Company staff at no charge to the Company.

10. Reforestation Program

The Company undertook a reforestation program under an agreement with the Government of the Province of Manitoba. The agreement provided for payments to the Company on the basis of the number of seedlings planted. Indirect expenditures pertaining to camp operations and administration are not allocated to the program. The agreement terminated in September, 1986.

11. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1987

12. Comparative Figures

Certain figures for the preceding period, as set out in the Statement of Changes in Financial Position - Exhibit C, have been reclassified to conform with the presentation adopted for this Statement in 1987.